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RUCPDO/DEPT OF COMMERCE WASHDC IMMEDIATE
RUEAIIA/CIA WASHDC IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 03 RIYADH 008253

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E.O. 12958: DECL: 10/16/2016
TAGS: [EPET](#) [ENRG](#) [EINV](#) [PREL](#) [KU](#) [SA](#)
SUBJECT: ARABIAN CHEVRON,S VIEWS ON THE REFINERY DISPUTE
WITH KUWAIT: BACKGROUND FOR P MEETING

REF: A. RIYADH 5605
[1](#)B. GLENN GRIFFIN E-MAIL 13 OCTOBER 2006 "P MEETING
WITH CHEVRON CEO" WITH ATTACHED CHEVRON
MEMO
[1](#)C. RIYADH 8237

Classified By: ACTING DEPUTY CHIEF OF MISSION DAVID RUNDELL FOR REASONS

12958 1.4 B, D, AND E

Summary

[1](#)1. (C) This is a response to an action request, Ref B, for additional background for a 17 October meeting between P and Chevron CEO Reilly regarding a SAG disagreement with Kuwaiti plans to construct a refinery in the Partitioned Neutral Zone (PNZ) shared by the two countries. Executives from Arabian Chevron told us they had recently formally submitted a request to the SAG to extend their 60-year concession in the PNZ. They had received a positive initial response from the SAG. While they did not need USG assistance on the concession negotiation at this point, they strongly reiterated Chevron,s requests for assistance in working with the SAG to dissuade the Government of Kuwait and the Kuwait National Petroleum Company (KNPC) from plans to build a refinery on PNZ land currently occupied by Chevron,s Saudi Arabian Texaco facilities.

Chevron: 2009 Concession Negotiations Well in Hand
Minister Naimi: Outside Interference not Welcome

[1](#)2. (C) On October 15, Arabian Chevron executives Saudi Relations Representative Rasheed al Rasheed and Business Manager Mohammed Ayaz told us Chevron had recently formally submitted a request to the SAG to extend their concession, due to expire in 2009, in the neutral zone shared by Saudi Arabia and Kuwait. They indicated Chevron had received a positive initial response from the SAG. Rasheed and Ayaz believe the negotiations are well in hand, and Chevron does not need specific USG assistance or advocacy at this point. They told us Chevron is engaged in exclusive negotiations with the SAG for the concession extension, although they might expect the concession to be competitively bid if their negotiations fail.

[1](#)3. (C) Rasheed and Ayaz sounded a cautionary note regarding possible USG intervention in the concession issue. When

Chevron submitted its application to extend the concession, Petroleum and Mineral Resources Minister Naimi took the opportunity to spin a warning tale for Chevron, admonishing it not to repeat the mistake made by the Japanese-owned Arabian Oil Company (AOC) of using third party pressure in the quest to renew its concession. AOC lost its 40-year concession in 2000. For now, Chevron is clear USG interference could prejudice their case with the SAG to renew the PNZ concession.

Historical Background on Chevron,s PNZ Operations

14. (C) Rasheed and Ayaz laid out the historical background, and financial and operational basics of Chevron's work in the neutral zone: Chevron, first as Getty Oil, and later under the Saudi Arabian Texaco (SAT) brand, has operated in the PNZ since 1949 under a 60-year concession from the SAG. Rasheed indicated the SAG had provided the entire reserved area to Chevron to utilize for its operations, including the area in which the Kuwait National Petroleum Company (KNPC) now plans to build a refinery. Rasheed explained the SAG and Government of Kuwait (GOK) had negotiated an agreement to merge operations in the early 1950,s; since then, SAT and the Kuwait Oil Company (KOC) had jointly operated the field in a 50/50 joint venture. Rasheed was emphatic that Getty (later Chevron,s) contract and operations pre-dated the later agreement between the two countries to establish joint operations. Since the initiation of joint operations, both SAT and KOC have equally split equity requirements and crude lifting. PNZ operations currently produce about 250,000 barrels per day; during the lifetime of the field, it has

RIYADH 00008253 002 OF 003

produced about 3 billion barrels of crude oil.

Chevron,s Request: USG Weigh in to have Refinery
Relocated; PNZ Operations Otherwise at Risk

15. (C) Rasheed and Ayaz reiterated Chevron,s view that their ability to operate their oil concession is at risk from a plan to build a Kuwait National Petroleum Company (KNPC) refinery in the neutral zone. They requested the USG raise the Kuwaiti refinery issue with the SAG, without touching on the overall concession extension issue. They were at significant pains to stress the delicacy of Chevron's current negotiating situation. Rasheed and Ayaz refuted GOK claims that the proposed refinery would interfere only with a chalet and not impact oil operations. Instead, they charged the proposed refinery site would require the destruction of a significant portion of their PNZ housing and administrative offices, and would significantly interfere with operations.

Chevron Claims Kuwaitis Moving to Begin
Construction, Making a Land Grab

16. (C) Rasheed and Ayaz indicated the Kuwaitis seemed prepared to begin construction of the refinery shortly, with a view to starting operations shortly after the Chevron concession lapses in 2009. They marshalled the following points to support their view: Chevron told us the Kuwaitis, via the local municipality, have asked shops and villagers to evacuate to prepare for final land clearance for the refinery. Rasheed presented the Kuwaiti actions as a new sovereignty claim, and stated there was no good technical or business case to locate the approximately \$1 billion refinery at the proposed PNZ site. He stated it would cost KNPC several hundred million dinars to locate the refinery in the neutral zone, rather than closer to existing port facilities which would better serve KNPC's commercial goals. Rasheed and Ayaz characterized the Kuwaiti view as, &the Texaco

concession expires in 2009, and then we can do what we want with the land.8 Chevron also stated SAG is considering extending the current Chevron concession, rather than entering into a new agreement, to block Kuwaiti attempts to use any lapse in the concession as a wedge to permit KNPC,s entry.

Chevron: SAG is &Supporting Us to the Utmost8

¶7. (C) Rasheed and Ayaz were optimistic Chevron has lined up key support from Petroleum Minister Naimi, and Deputy Minister for Petroleum Affairs Prince Abdulaziz bin Salman. They characterized Minister Naimi as &very enthusiastic8 to solve the issue, and &angry8 at the Kuwaiti approach. They explained Deputy Minister Prince Abdulaziz is &the main person defending us, and very critical of the Kuwaitis.8 They stated the SAG was &doing its utmost8 to assist Chevron with the Kuwaitis. Rasheed and Ayaz told us Ministry of Foreign Affairs had been helpful in sending a letter to the Government of Kuwait (reftel A) telling them the proposed site for the refinery violates existing agreements between the governments, and a new location must be found. Rasheed and Ayaz groused the GOK had only provided their response to the SAG letter via statements in the media. Finally, they noted the Deputy Minister Abdulaziz sits on an inter-ministerial committee with the Ministries of Interior and Defense, charged with examining all border dispute issues; they also hoped for some movement from this quarter.

Mission Reporting Indicates
SAG Views not so Clear Cut

¶8. (C) While our local Arabian Chevron interlocutors portray the SAG as forward-leaning in resolving this issue to Chevron,s satisfaction, Mission reporting indicates their full participation may be more reluctant. As per reftel A, both Minister Naimi and Ministry of Petroleum Advisor Dr. Al-Muhanna have told the Mission they preferred Chevron (with Saudi Arabian Texaco) and the Kuwaiti firm to work out the dispute between themselves; the SAG had somewhat reluctantly

RIYADH 00008253 003 OF 003

New Technologies) Bearing Unripe Fruit in the PNZ?

¶9. (C) Chevron in the meantime is attempting to deploy new steamflood technology for extraction of heavy oil in its PNZ operations. Despite Chevron Vice-Chairman Robertson,s 19 September announcement in Platts that the pilot steamflood project was proving &quite promising,8 in the PNZ, Rasheed was less sanguine. He told us test results were inconclusive, and the technology's use in the limestone characteristic of their PNZ fields was entirely new and still being evaluated. Rasheed stated frankly the project remains a pilot, and Chevron had until the end of the present concession period, 2009, to evaluate it.

New Steam Technology Could Prove Key to
Chevron,s Concession Extension

¶10. (C) Comment : Until Chevron,s concession extension is assured, there is little incentive for the firm to invest heavily in new technology in the PNZ fields. However, Chevron,s successful ability to deploy new proprietary technology in the PNZ could be the nut it must crack to gain extension of its concession. Some heavy oil in the PNZ is so thick it has proved impervious to more traditional production techniques. Additional oil recovery through steam technology would allow Chevron to bring a unique asset to the table and strengthen its negotiating hand. Unfortunately, Chevron,s

results to date do not yet tell us if the steam technology will help the firm clinch its concession, or merely indicate the vaporizing of Chevron,s research dollars. End comment.

A Rose by Any Other Name(.

¶11. (U) Finally, in the final lap of wrapping up the ChevronTexaco merger, Arabian Chevron is under orders from Chevron headquarters to consolidate operations under the Chevron name. Arabian Chevron continues to hold the PNZ concession under the "Saudi Arabian Texaco" name, while they await a royal decree to allow them change the name to the Chevron moniker, which their CEO is keen to do.
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